

Internal Revenue Service

Department of the Treasury

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Washington, DC 20224

Date 3-10-93

Surname [REDACTED]

Person to Contact: [REDACTED]

Telephone Number: [REDACTED]

Refer Reply to: [REDACTED]

Date:

OCT 27 1992

Employer Identification Number: [REDACTED]

Key District: [REDACTED]

Dear Applicant:

We have considered your application for exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code.

The information submitted discloses that you were incorporated on [REDACTED]. Your purpose as stated in your articles of incorporation is "to teach the strategies presented in the book [REDACTED] for achieving Total Quality and 100% Customer Satisfaction."

Your activities consist of offering seminars for business executives. The purpose of the seminars is to teach member-participants to boost profits by retaining more customers. The book [REDACTED] will serve as the basis for these seminars. Seminars will be led by [REDACTED], your president, and [REDACTED].

You will also produce a series of video-based training programs to help members' employees assure total quality and 100% customer satisfaction. Projected titles include "[REDACTED]," "[REDACTED]," and "[REDACTED]."

Your membership is open to individuals and organizations. Benefits to members include discounts on seminars, publications and video training programs, a copy of the book [REDACTED] and a trial participation in [REDACTED], a seminar-in-print.

The book [REDACTED] is authored by [REDACTED] and [REDACTED]. The book is published, sold, and distributed by the [REDACTED] Division of [REDACTED], and a royalty is paid to the authors. [REDACTED]

is also editor-in-chief of [REDACTED]. You purchase the book [REDACTED] and distribute copies to your members and seminar participants. [REDACTED] is offered for sale to members and seminar participants after a trial participation.

Your president will spend full time recruiting members, and marketing and conducting seminars.

Your sources of financial support will be from seminar fees and membership dues.

Section 501(c)(3) of the Code provides for the exemption from Federal income tax of organizations organized and operated exclusively for the purposes specified therein, no part of the net earnings of which inures to the benefit of any private shareholder or individual. Educational purposes are among the purposes specified therein.

Section 1.501(c)(3)-1(d)(3) of the Income Tax Regulations states, in part, that the term "educational," as used in section 501(3) of the Code, relates to (1) the instruction or training of the individual for the purpose of improving or developing his capabilities, or (2) the instruction of the public on subjects useful to the individual and beneficial to the community.

Section 1.501(c)(3)-1(d)(1)(ii) of the regulations provides that an organization is not organized or operated exclusively for one or more exempt purposes unless it serves a public rather than a private interest.

Section 1.501(a)-(1)(c) of the regulations provides that the words "private shareholder or individual" in section 501 refer to persons having a personal and private interest in the activities of the organization.

In Better Business Bureau v. United States, 326 U.S. 279 (1945), the court held that the presence of a single noncharitable purpose, if substantial in nature, will preclude exemption under section 501(c)(3) of the Code regardless of the number or importance of the educational purposes.

Rev. Rul. 55-231, 1955-1 C.B. 72, holds that an organization whose primary purpose is to promote the circulation of the books of one of its incorporators and whose activities consist of purchasing such works and making them available for public use, is not organized and operated exclusively for educational purposes within the meaning of section 501(c)(3) of the Code or any of the other purposes provided therein.

Since [REDACTED] is your president, she is considered as a person having a personal and private interest in your activities within the meaning of section 1.501(a)-(1)(c) of the regulations. We believe the arrangement whereby you purchase the book [REDACTED] from [REDACTED] and distribute copies to members and seminar participants results in a substantial benefit to [REDACTED] since she receives a royalty from the Association. Moreover, it also appears that [REDACTED] will receive a substantial benefit from the marketing of [REDACTED] to members and seminar participants since she is the editor-in-chief of this training program. We believe such benefits are more than incidental and will result in a substantial private benefit to [REDACTED]. Such a private benefit is inconsistent with tax-exempt status under section 501(c)(3) of the Code. Therefore, you cannot be considered as organized and operated exclusively for an exempt purpose within the meaning of section 1.501(c)(3)-1(d)(1)(ii) of the regulations.

Accordingly, it is our conclusion that you are not entitled to exemption from Federal income tax and you are required to file income tax returns. Contributions to you are not deductible under section 170 of the Code.

You have the right to protest this ruling if you believe that it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement must be submitted within 30 days of the date of this letter and must be signed by one of your officers. You also have a right to a conference in this office after your statement is submitted. If you want a conference, you must request it when you file your protest statement. If you are to be represented by someone who is not one of your officers, he/she must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements.

If you do not protest this proposed ruling in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Code provides, in part, that a declaratory judgment or decree under this section shall not be issued in any proceeding unless the United States Tax Court, the United States Claims Court, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to your key District

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Director. Thereafter, if you have any questions about your Federal income tax status, including questions concerning reporting requirements, please contact your key District Director.

Sincerely,

Chief, Exempt Organizations  
Rulings Branch 1

cc:

16-27-98 10/27/92